

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ROCKFORD	County KENT
Fiscal Year End JUNE 30, 2006	Opinion Date AUGUST 10, 2006	Date Audit Report Submitted to State OCTOBER 9, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

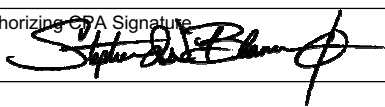
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	NONE		
Other (Describe)	<input type="checkbox"/>	NONE		
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 616-975-4100		
Street Address 2330 EAST PARIS AVENUE SE		City GRAND RAPIDS	State MI	Zip 49546
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM		License Number 24801



***CITY OF ROCKFORD***

***ROCKFORD, MICHIGAN***

***FINANCIAL STATEMENTS***

***FOR THE YEAR ENDED JUNE 30, 2006***

# CITY OF ROCKFORD

## TABLE OF CONTENTS

---

	<u>PAGE</u>
<b>Independent Auditors' Report</b>	1-2
<b>Basic Financial Statements</b>	
Management's Discussion and Analysis	3-11
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	12
Statement of Activities	13-14
Fund Financial Statements:	
Balance Sheet – Governmental Funds	15
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to the Net Assets of Governmental Activities on the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	19
Statement of Net Assets – Enterprise Funds	20
Statement of Revenues, Expenses and Changes in Fund Net Assets – Enterprise Funds	21
Statement of Cash Flows – Enterprise Funds	22
Statement of Fiduciary Assets and Liabilities – Agency Funds	23
Notes to Financial Statements	24-37
<b>Combining and Individual Fund Statements and Schedules</b>	
Nonmajor Governmental Funds:	
Combining Balance Sheet	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	39

(continued)

# CITY OF ROCKFORD

## TABLE OF CONTENTS (CONTINUED)

---

	<u>PAGE</u>
<b>Combining and Individual Fund Statements and Schedules (Continued)</b>	
Special Revenue Funds:	
Schedule of Revenues, Expenditures and Changes in Fund Balance	
- Budget and Actual – Major Street Special Revenue Fund	40
Schedule of Revenues, Expenditures and Changes in Fund Balance	
- Budget and Actual – Local Street Special Revenue Fund	41
Schedule of Revenues, Expenditures and Changes in Fund Balance	
- Budget and Actual – Budget Stabilization Special Revenue Fund	42
Schedule of Revenues, Expenditures and Changes in Fund Balance	
- Budget and Actual – Library Special Revenue Fund	43
Schedule of Revenues, Expenditures and Changes in Fund Balance	
- Budget and Actual – Cemetery Fund	44
Fiduciary Funds:	
Combining Balance Sheet	45
Downtown Development Authority Component Unit:	
Balance Sheet/Statement of Net Assets	46
Statement of Activities and Revenues, Expenditures and Changes in Fund Balance	47
<b>Schedule of Indebtedness</b>	48-50
<b>Internal Control and Compliance</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting	
and on Compliance and Other Matters Based on an Audit of Financial	
Statements Performed in Accordance with <i>Government Auditing Standards</i>	51
<b>Continuing Disclosure Filing</b>	52-61



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* THE REHMANN GROUP

An Independent Member of Baker Tilly International

## **INDEPENDENT AUDITORS' REPORT**

August 10, 2006

Honorable Mayor and  
Members of the City Council  
City of Rockford, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Rockford, Michigan (the "City"), as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Rockford, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented components units, each major fund, and the aggregate remaining fund information of the City of Rockford, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Rockford's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the City of Rockford's basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

The continuing disclosure section has not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

## Management's Discussion and Analysis

As management of the City of Rockford, we offer readers of the City of Rockford's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

### Financial Highlights

- Issued \$200,000 in capital improvement bonds to completely remodel the Rockford Community Cabin.
- Continued Park Expansion/Improvement program with upgrades to Peppler Park and the Heritage Park system.
- Completed the design of the Main Street reconstruction project to be completed next fiscal year with both Federal and State monies.
- Continued strong support of Public Safety functions accounting for over 50% of general fund expenditures.
- Downtown improvements continuing with the redevelopment of the old water plant site into a multi-million dollar facility which includes office, retail space, and an upscale restaurant.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Rockford's financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Rockford that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government administration, police and fire services, public works including major and local street maintenance and recreation and cultural activities. The business-type activities of the City include sewer and water

services. The government-wide financial statements include not only the City of Rockford itself (known as the *primary government*), but also a legally separate Downtown Development Authority and Economic Development Corporation for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 12-14 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Rockford, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital projects funds, each of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 15-19 of this report.

**Proprietary funds.** The City of Rockford maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Rockford uses enterprise funds to account for its sewer and water operations.



Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, both of which are considered to be major funds of the City of Rockford.

The basic proprietary fund financial statements can be found on pages 20-22 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 23 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-37 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 38-45 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Rockford, assets exceeded liabilities by \$10,875,165 at the close of the most recent fiscal year.

One of the larger portions of the City's net assets reflects unrestricted net assets which are available for future operation while a significant portion of net assets is invested in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

## City of Rockford Net Assets

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$2,791,960	\$2,447,825	\$ 3,014,398	\$ 2,682,627	\$ 5,806,358	\$ 5,130,452
Capital assets	3,273,889	3,006,957	7,243,816	7,428,421	10,517,705	10,435,378
Total assets	6,065,849	5,454,782	10,258,214	10,111,048	16,324,063	15,565,830
Long-term liabilities outstanding	1,216,563	1,105,300	4,052,926	4,453,386	5,269,489	5,558,686
Other liabilities	114,833	57,384	64,576	47,159	179,409	104,543
Total liabilities	1,331,396	1,162,684	4,117,502	4,500,545	5,448,898	5,663,229
Net assets:						
Invested in capital assets, net						
of related debt	2,251,312	2,091,197	3,190,890	2,975,035	5,442,202	5,066,232
Restricted	1,517,900	1,354,693	-	-	1,517,900	1,354,693
Unrestricted	965,241	846,208	2,949,822	2,635,468	3,915,063	3,481,676
<b>Total net assets</b>	<b>\$4,734,453</b>	<b>\$4,292,098</b>	<b>\$ 6,140,712</b>	<b>\$ 5,610,503</b>	<b>\$10,875,165</b>	<b>\$ 9,902,601</b>

Net assets of the City increased by \$972,564 with both governmental and business-type activities showing additions to prior balances. The business-type activities increase in net assets of \$530,209 was primarily the result of operating revenues over expenditures. The governmental activities increase in net assets of \$442,355 is the result of estimated useful lives utilized in calculating depreciation and the relationship of expenses to governmental activities revenues.

## City of Rockford Changes in Net Assets

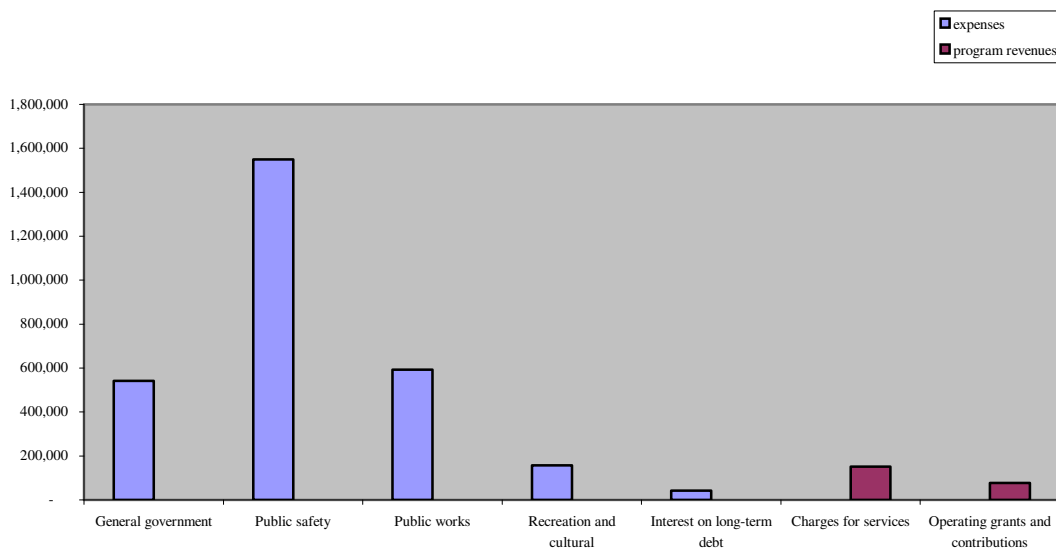
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue:						
Program revenue:						
Charges for services	\$ 161,648	\$ 150,896	\$2,619,401	\$2,604,886	\$2,781,049	\$2,755,782
Operating grants and contributions	82,842	77,697	-	-	82,842	77,697
General revenue:						
Property taxes	2,158,435	1,999,798	-	-	2,158,435	1,999,798
Other governmental sources	677,882	684,301	-	-	677,882	684,301
Other	246,013	282,159	93,008	25,602	339,021	307,761
Total revenue	3,326,820	3,194,851	2,712,409	2,630,488	6,039,229	5,825,339
Expenses:						
General government	542,186	503,212	-	-	542,186	503,212
Public safety	1,550,204	1,484,005	-	-	1,550,204	1,484,005
Public works	592,820	494,522	-	-	592,820	494,522
Recreation and cultural	157,406	444,042	-	-	157,406	444,042
Interest on long-term debt	41,849	37,202	-	-	41,849	37,202
Sewer	-	-	1,307,199	1,393,476	1,307,199	1,393,476
Water	-	-	875,001	983,445	875,001	983,445
Total expenses	2,884,465	2,962,983	2,182,200	2,376,921	5,066,665	5,339,904

	<b><u>Governmental activities</u></b>		<b><u>Business-type Activities</u></b>		<b><u>Total</u></b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Increase in net assets	\$ 442,355	\$ 231,868	\$ 530,209	\$ 253,567	\$ 972,564	\$ 485,435
Net assets - beginning of year	4,292,098	4,060,230	5,610,503	5,356,936	9,902,601	9,417,166
<b>Net assets - end of year</b>	<b><u>\$4,734,453</u></b>	<b><u>\$4,292,098</u></b>	<b><u>\$6,140,712</u></b>	<b><u>\$5,610,503</u></b>	<b><u>\$10,875,165</u></b>	<b><u>\$9,902,601</u></b>

### Governmental activities

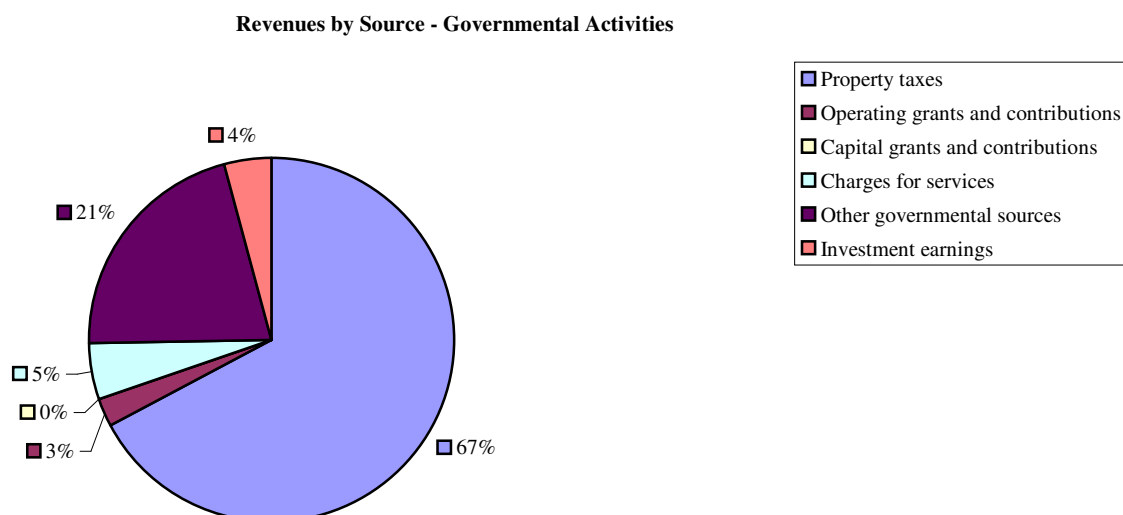
During the year the City continued its emphasis in public safety by investing \$1,550,204 or 54% of governmental activities expenses. Public works, which includes major and local street maintenance was \$592,820 or 21% of governmental activities expenses while general government, recreation and cultural and interest on long-term debt made up the remaining 25% of governmental activities expenses.

### Expenses and Program Revenues - Governmental Activities



---

## Revenues by Source - Governmental Activities



**Business-type activities.** Business-type activities increased the City's net assets by \$530,209, accounting for 55 percent of the total growth in the government's net assets for the current year. Key elements of this increase are as follows:

- Charges for services for business-type activities remained steady from FY 2005 to FY 2006.
- Expenses decreased 8.2%, or \$194,721, primarily because of decreases in professional and contractual services as well as in materials and supplies.

---

## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,693,761, an increase of \$287,034 in comparison with the prior year. Approximately 84 percent of this total amount (\$2,528,875) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to generate income for library purposes (\$144,557), or 2) for fuel inventory replacement (\$20,329).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,155,532, while total fund balance was \$1,175,861. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 42 percent of total general fund expenditures and transfers out.

The fund balance of the City's general fund increased by \$123,827 during the current fiscal year. This is primarily attributable to growth in property tax revenue.

The major and local street funds have total fund balances of \$408,743, which increased by \$146,467 during the year.

The budget stabilization fund has a total fund balance of \$116,662, which was consistent with the June 30, 2005 balance. The balance of this fund is restricted for use as defined by state law.

***Proprietary funds.*** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the sewer and water funds at the end of the year amounted to \$1,398,915 and \$1,550,907, respectively. The sewer fund had an increase in net assets for the year of \$278,049, whereas the water fund had an increase of \$252,160. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets for expenditures were relatively minor for the year.

During the year, general fund revenues were more than budgetary estimates and expenditures were less than budgetary estimates, resulting in an actual increase in fund balance that exceeded the final amended budget amount by \$180,027.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$10,517,705 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, and infrastructure which have only been added since 2003. The City's investment in capital assets for the current fiscal year increased approximately 1 percent.

Major capital asset events during the current fiscal year included the following:

- Improvements to Peppler Park
- Construction of a community cabin
- Water tower improvements

**City of Rockford Capital Assets**  
(net of depreciation)

	<b><u>Governmental</u></b> <b><u>activities</u></b>		<b><u>Business-type</u></b> <b><u>activities</u></b>		<b><u>Total</u></b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Land	\$1,100,056	\$1,100,056	\$ -	\$ -	\$ 1,100,056	\$ 1,100,056
Infrastructure	246,948	243,197	-	-	246,948	243,197
Buildings and system improvements	1,345,219	1,014,917	7,243,816	7,428,421	8,589,035	8,443,338
Vehicles and equipment	581,666	648,787	-	-	581,666	648,787
<b>Total</b>	<b><u>\$3,273,889</u></b>	<b><u>\$3,006,957</u></b>	<b><u>\$7,243,816</u></b>	<b><u>\$7,428,421</u></b>	<b><u>\$10,517,705</u></b>	<b><u>\$10,435,378</u></b>

Additional information on the City of Rockford capital assets can be found in Note 3 on pages 32-33 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total debt outstanding of \$5,269,489. Of this amount, \$4,052,926 was debt of business activities and \$1,216,563 was debt of governmental activities.

**General Obligation and Revenue Bonds**

	<b><u>Governmental</u></b> <b><u>activities</u></b>		<b><u>Business-type</u></b> <b><u>activities</u></b>		<b><u>Total</u></b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Accrued employee benefits	\$ 193,986	\$ 189,540	\$ -	\$ -	\$ 193,986	\$ 189,540
Notes	342,577	175,760	-	-	342,577	175,760
Bonds	680,000	740,000	4,052,926	4,453,386	4,732,926	5,193,386
<b>Total</b>	<b><u>\$1,216,563</u></b>	<b><u>\$1,105,300</u></b>	<b><u>\$4,052,926</u></b>	<b><u>\$4,453,386</u></b>	<b><u>\$5,269,489</u></b>	<b><u>\$5,558,686</u></b>

The City's total debt decreased by \$289,197 (5.2 percent) during the current fiscal year.

The City is currently not rated for general obligation bond issuance.

State statutes limit the amount of general obligation debt a governmental entity may issue up to 10 percent of its total assessed valuation. The current debt limitation for the City is \$19,228,956, which is significantly in excess of the City's outstanding general obligation debt of \$4,732,926.

Additional information on the City's long-term debt can be found in Note 7 on pages 35-36 of this report.

## **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2006-2007 fiscal year:

- Union and non-union wage increases slated at 3%
- Pension increases estimated at 10% to account for the benefit increase to B-3
- Minimal revenue sharing increases due to mid-decade census
- Health insurance increases estimated at 8% with a 2% employee contribution beginning July 1
- Continued ramping up sewer rates in anticipation of building the new PARCC Side Wastewater Treatment Plant

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 7 South Monroe St., Rockford, Michigan 49341.

# CITY OF ROCKFORD

## Statement of Net Assets

June 30, 2006

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority	Economic Development Corporation
<b>Assets</b>					
Cash and pooled investments	\$ 2,562,032	\$ 2,407,223	\$ 4,969,255	\$ 75,968	\$ 2,207
Receivables					
Accounts	44,578	466,736	511,314	745	-
Special assessments	-	119,585	119,585	-	-
Interest	22,096	20,854	42,950	658	19
Due from other governmental units	142,925	-	142,925	-	-
Inventory	20,329	-	20,329	-	-
Land	1,100,056	-	1,100,056	-	-
Property, plant and equipment, net of accumulated depreciation	2,173,833	7,243,816	9,417,649	1,244,485	-
<b>Total assets</b>	<b>6,065,849</b>	<b>10,258,214</b>	<b>16,324,063</b>	<b>1,321,856</b>	<b>2,226</b>
<b>Liabilities</b>					
Accounts payable	57,532	21,226	78,758	1,271	-
Other accrued liabilities	57,301	43,350	100,651	12,182	-
Long-term liabilities:					
Due within one year	111,924	410,000	521,924	65,000	-
Due in more than one year	1,104,639	3,660,000	4,764,639	495,000	-
Unamortized discount on revenue bonds	-	(17,074)	(17,074)	-	-
<b>Total liabilities</b>	<b>1,331,396</b>	<b>4,117,502</b>	<b>5,448,898</b>	<b>573,453</b>	<b>-</b>
<b>Net assets</b>					
Invested in capital assets, net of related debt	2,251,312	3,190,890	5,442,202	684,485	-
Restricted for:					
Major streets	328,950	-	328,950	-	-
Local streets	79,793	-	79,793	-	-
Budget stabilization	116,662	-	116,662	-	-
Library operating	62,386	-	62,386	-	-
Capital projects	506,097	-	506,097	-	-
Cemetery	276,801	-	276,801	-	-
Library endowment:					
Expendable	2,654	-	2,654	-	-
Nonexpendable	144,557	-	144,557	-	-
Unrestricted	965,241	2,949,822	3,915,063	63,918	2,226
<b>Total net assets</b>	<b>\$ 4,734,453</b>	<b>\$ 6,140,712</b>	<b>\$ 10,875,165</b>	<b>\$ 748,403</b>	<b>\$ 2,226</b>

The accompanying notes are an integral part of these financial statements.



# CITY OF ROCKFORD

## Statement of Activities

For the Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>Primary government</b>				
Governmental activities:				
General government	\$ 542,186	\$ 23,700	\$ -	\$ (518,486)
Public safety	1,550,204	20,877	38,957	(1,490,370)
Public works	592,820	108,146	35,330	(449,344)
Recreation and cultural	157,406	8,925	10,634	(137,847)
Interest on long-term debt	41,849	-	-	(41,849)
Total governmental activities	2,884,465	161,648	84,921	(2,637,896)
Business-type activities:				
Sewer	1,307,199	1,543,992	-	236,793
Water	875,001	1,075,409	-	200,408
Total business-type activities	2,182,200	2,619,401	-	437,201
 Total primary government	 \$ 5,066,665	 \$ 2,781,049	 \$ 84,921	 \$ (2,200,695)
<b>Component units</b>				
Downtown Development Authority	\$ 93,328	\$ -	\$ -	\$ (93,328)
Economic Development Corporation	1,058	-	-	(1,058)
 Total component units	 \$ 94,386	 \$ -	 \$ -	 \$ (94,386)

(Continued)

The accompanying notes are an integral part of these financial statements.

# CITY OF ROCKFORD

## Statement of Activities (Continued)

For the Year Ended June 30, 2006

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority	Economic Development Corporation
<b>Changes in net assets</b>					
Net (expense) revenue	\$ (2,637,896)	\$ 437,201	\$ (2,200,695)	\$ (93,328)	\$ (1,058)
General revenues:					
Property taxes	2,158,435	-	2,158,435	151,846	-
Grants and contributions not restricted to specific programs	785,832	5,399	791,231	5,000	606
Unrestricted investment earnings	135,574	86,943	222,517	3,539	-
Gain on sale of capital assets	410	666	1,076	-	-
Total general fund revenues	3,080,251	93,008	3,173,259	160,385	606
Change in net assets	442,355	530,209	972,564	67,057	(452)
Net assets, beginning of year	4,292,098	5,610,503	9,902,601	681,346	2,678
<b>Net assets, end of year</b>	<b>\$ 4,734,453</b>	<b>\$ 6,140,712</b>	<b>\$ 10,875,165</b>	<b>\$ 748,403</b>	<b>\$ 2,226</b>

(Concluded)

The accompanying notes are an integral part of these financial statements.

# CITY OF ROCKFORD

## Balance Sheet Governmental Funds

June 30, 2006

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and pooled investments	\$ 1,080,653	\$ 478,119	\$ 1,003,260	\$ 2,562,032
Receivables:				
Accounts	44,578	-	-	44,578
Interest	9,131	4,142	8,823	22,096
Due from other governmental units	77,014	20,911	45,000	142,925
Inventory	20,329	-	-	20,329
<b>Total assets</b>	<u>\$ 1,231,705</u>	<u>\$ 503,172</u>	<u>\$ 1,057,083</u>	<u>\$ 2,791,960</u>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 16,756	\$ 35,821	\$ 4,955	\$ 57,532
Accrued liabilities	39,088	-	1,579	40,667
<b>Total liabilities</b>	<u>55,844</u>	<u>35,821</u>	<u>6,534</u>	<u>98,199</u>
<b>Fund balances</b>				
Reserved for:				
Inventory	20,329	-	-	20,329
Library Endowment	-	-	144,557	144,557
Unreserved:				
Reported in nonmajor special revenue funds	-	-	864,592	864,592
Reported in nonmajor capital projects funds	-	-	38,746	38,746
Reported in nonmajor permanent fund	-	-	2,654	2,654
Undesignated	1,155,532	467,351	-	1,622,883
<b>Total fund balances</b>	<u>1,175,861</u>	<u>467,351</u>	<u>1,050,549</u>	<u>2,693,761</u>
<b>Total liabilities and fund balances</b>	<u>\$ 1,231,705</u>	<u>\$ 503,172</u>	<u>\$ 1,057,083</u>	<u>\$ 2,791,960</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF ROCKFORD

## Reconciliation of Fund Balances on the Balance Sheet For Governmental Funds To the Net Assets of Governmental Activities on the Statement of Net Assets

June 30, 2006

Fund balances - total governmental funds	\$ 2,693,761
--	--------------

Amounts reported for governmental activities in the statement of net assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the funds.

Add - land	1,100,056
Add - capital assets, net of accumulated depreciation	2,173,833

Certain liabilities, such as bond payable, are not due and payable in the  
current period and therefore are not reported in the funds.

Deduct - bonds payable	(1,022,577)
Deduct - accrued interest	(16,634)
Deduct - compensated absences	<u>(193,986)</u>

Net assets of governmental activities	<u><u>\$ 4,734,453</u></u>
---------------------------------------	----------------------------

The accompanying notes are an integral part of these financial statements.

# CITY OF ROCKFORD

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

For the Year Ended June 30, 2006

	General Fund	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Taxes	\$ 2,158,435	\$ -	\$ -	\$ 2,158,435
Licenses and permits	54,388	-	-	54,388
Intergovernmental revenue:		-		
Local	34,000	-	-	34,000
State	408,627	-	282,767	691,394
Charges for services	41,353	-	-	41,353
Fines and forfeitures	4,750	-	-	4,750
Interest and rentals	95,947	18,794	35,965	150,706
Other	91,737	78,897	21,160	191,794
<b>Total revenues</b>	2,889,237	97,691	339,892	3,326,820
<b>Expenditures</b>				
Current:				
General government	422,925	-	-	422,925
Public safety	1,385,520	-	-	1,385,520
Public works	381,373	-	174,331	555,704
Recreation and cultural	104,040	-	32,164	136,204
Other	85,714	-	-	85,714
Debt service:				
Principal	-	33,183	60,000	93,183
Interest and fiscal charges	-	5,345	36,156	41,501
Capital outlay	-	512,549	6,486	519,035
<b>Total expenditures</b>	2,379,572	551,077	309,137	3,239,786
Revenues over (under) expenditures	509,665	(453,386)	30,755	87,034
<b>Other financing sources (uses)</b>				
Transfers in	15,162	251,000	246,156	512,318
Transfers (out)	(401,000)	-	(111,318)	(512,318)
Issuance of notes	-	200,000	-	200,000
<b>Total other financing sources (uses)</b>	(385,838)	451,000	134,838	200,000
Net change in fund balances	123,827	(2,386)	165,593	287,034
Fund balances, beginning of year	1,052,034	469,737	884,956	2,406,727
<b>Fund balances, end of year</b>	\$ 1,175,861	\$ 467,351	\$ 1,050,549	\$ 2,693,761

The accompanying notes are an integral part of these financial statements.

# CITY OF ROCKFORD

## Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds To the Statement of Activities

For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 287,034
--	------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capitalized assets	408,402
Deduct - depreciation expense	(141,470)

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - proceeds on installment note	(200,000)
Add - principal payments on long-term debt	93,183

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in interest expense for accrued interest	(348)
Deduct - increase in the accrual for compensated absences	(4,446)

Change in net assets of governmental activities	<u><u>\$ 442,355</u></u>
---	--------------------------

The accompanying notes are an integral part of these financial statements.

# CITY OF ROCKFORD

## General Fund Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Taxes	\$ 2,138,750	\$ 2,138,750	\$ 2,158,435	\$ 19,685
Licenses and permits	59,600	59,600	54,388	(5,212)
Intergovernmental revenue:				
Local	55,500	55,500	34,000	(21,500)
State	409,321	409,321	408,627	(694)
Charges for services	24,000	24,000	41,353	17,353
Fines and forfeitures	6,500	6,500	4,750	(1,750)
Interest and rentals	74,010	74,010	95,947	21,937
Other	54,800	54,800	91,737	36,937
<b>Total revenues</b>	<b>2,822,481</b>	<b>2,822,481</b>	<b>2,889,237</b>	<b>66,756</b>
<b>Expenditures</b>				
General Government:				
City Council	26,854	26,854	25,728	(1,126)
Elections	2,800	4,000	3,872	(128)
Assessor	68,032	70,032	67,630	(2,402)
City Clerk	266,670	286,670	267,524	(19,146)
Cemetery	82,075	82,075	51,601	(30,474)
Planning Commission	5,150	7,150	6,570	(580)
<b>Total general government</b>	<b>451,581</b>	<b>476,781</b>	<b>422,925</b>	<b>(53,856)</b>
Public safety:				
Police	1,010,100	1,010,100	1,003,166	(6,934)
Fire	401,300	401,300	382,354	(18,946)
<b>Total public safety</b>	<b>1,411,400</b>	<b>1,411,400</b>	<b>1,385,520</b>	<b>(25,880)</b>
Public works	377,950	397,950	381,373	(16,577)
Recreation and cultural	97,850	108,850	104,040	(4,810)
Other expenditures	86,000	86,000	85,714	(286)
<b>Total expenditures</b>	<b>2,424,781</b>	<b>2,480,981</b>	<b>2,379,572</b>	<b>(101,409)</b>
Revenue over (under) expenditures	397,700	341,500	509,665	168,165
<b>Other financing sources (uses)</b>				
Transfers in	3,300	3,300	15,162	11,862
Transfers (out)	(401,000)	(401,000)	(401,000)	-
<b>Total other financing sources (uses)</b>	<b>(397,700)</b>	<b>(397,700)</b>	<b>(385,838)</b>	<b>11,862</b>
Net change in fund balances	-	(56,200)	123,827	180,027
Fund balances, beginning of year	1,052,034	1,052,034	1,052,034	-
<b>Fund balances, end of year</b>	<b>\$ 1,052,034</b>	<b>\$ 995,834</b>	<b>\$ 1,175,861</b>	<b>\$ 180,027</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF ROCKFORD

## Statement of Net Assets Enterprise Funds

**June 30, 2006**

	<b>Sewer</b>	<b>Water</b>	<b>Total</b>
<b>Assets</b>			
Current assets:			
Cash and pooled investments	\$ 1,161,582	\$ 1,245,641	\$ 2,407,223
Receivables:			
Accounts	256,126	210,610	466,736
Special assessments	-	119,585	119,585
Interest	10,063	10,791	20,854
<b>Total current assets</b>	1,427,771	1,586,627	3,014,398
Noncurrent assets:			
Capital assets, net of accumulated depreciation	2,036,649	5,207,167	7,243,816
<b>Total assets</b>	3,464,420	6,793,794	10,258,214
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	16,200	5,026	21,226
Accrued interest	6,046	22,015	28,061
Accrued payroll liabilities	6,610	8,679	15,289
Current maturities of long-term debt	145,000	265,000	410,000
<b>Total current liabilities</b>	173,856	300,720	474,576
Noncurrent liabilities:			
Revenue bonds payable, net of current maturities	1,005,000	2,655,000	3,660,000
Unamortized discount on revenue bonds	(14,979)	(2,095)	(17,074)
<b>Total noncurrent liabilities</b>	990,021	2,652,905	3,642,926
<b>Total liabilities</b>	1,163,877	2,953,625	4,117,502
<b>Net assets</b>			
Invested in capital assets, net of related debt	901,628	2,289,262	3,190,890
Unrestricted	1,398,915	1,550,907	2,949,822
<b>Total net assets</b>	\$ 2,300,543	\$ 3,840,169	\$ 6,140,712

The accompanying notes are an integral part of these financial statements.



# CITY OF ROCKFORD

## Statement of Revenues, Expenses And Changes in Net Assets Enterprise Funds

**For the Year Ended June 30, 2006**

	Sewer	Water	Total
<b>Operating revenues</b>			
Charges for services	\$ 1,543,992	\$ 1,075,409	\$ 2,619,401
<b>Operating expenses</b>			
Personnel services	249,305	364,342	613,647
Professional and contractual services	839,300	81,962	921,262
Materials and supplies	9,881	99,578	109,459
Utilities	22,626	80,258	102,884
Repairs and maintenance	1,447	2,863	4,310
Insurance and bonds	14,281	8,486	22,767
Equipment rental	10,250	-	10,250
Depreciation	116,307	111,868	228,175
Miscellaneous	2,409	18,485	20,894
<b>Total operating expenses</b>	1,265,806	767,842	2,033,648
Operating income (loss)	278,186	307,567	585,753
<b>Nonoperating revenues (expenses)</b>			
Interest income	39,736	47,207	86,943
Miscellaneous	1,520	4,545	6,065
Interest expense	(41,393)	(107,159)	(148,552)
<b>Total non-operating revenues (expenses)</b>	(137)	(55,407)	(55,544)
Change in net assets	278,049	252,160	530,209
Net assets, beginning of year	2,022,494	3,588,009	5,610,503
<b>Net assets, end of year</b>	<b>\$ 2,300,543</b>	<b>\$ 3,840,169</b>	<b>\$ 6,140,712</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF ROCKFORD

## Enterprise Funds Statement of Cash Flows

For the Year Ended June 30, 2006

	Sewer	Water	Total
<b>Cash flows from operating activities</b>			
Cash received from customers	\$ 1,512,690	\$ 1,050,772	\$ 2,563,462
Cash payments to suppliers for goods and services	(883,994)	(296,157)	(1,180,151)
Cash payments to employees for services	(246,033)	(361,250)	(607,283)
<b>Net cash provided by operating activities</b>	382,663	393,365	776,028
<b>Cash flows from non-capital financing activities</b>			
Miscellaneous nonoperating revenue	1,520	4,545	6,065
<b>Cash flows from capital and related financing activities</b>			
Acquisitions of capital assets	-	(43,570)	(43,570)
Cash received on special assessments	-	33,186	33,186
Principal paid on long-term debt	(145,000)	(260,000)	(405,000)
Interest and fiscal charges	(39,536)	(105,098)	(144,634)
<b>Net cash (used in) capital and related financing activities</b>	(184,536)	(375,482)	(560,018)
<b>Cash flows from investing activities</b>			
Interest income	39,254	46,566	85,820
Net increase in cash and pooled investments	238,901	68,994	307,895
Cash and pooled investments, beginning of year	922,681	1,176,647	2,099,328
<b>Cash and pooled investments, end of year</b>	\$ 1,161,582	\$ 1,245,641	\$ 2,407,223
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income	\$ 278,186	\$ 307,567	\$ 585,753
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	116,307	111,868	228,175
Changes in assets and liabilities which provided (used) cash:			
Accounts receivable	(31,302)	(24,637)	(55,939)
Accounts payable	16,743	5,063	21,806
Other accrued liabilities	2,729	(6,496)	(3,767)
<b>Net cash provided by operating activities</b>	\$ 382,663	\$ 393,365	\$ 776,028

The accompanying notes are an integral part of these financial statements.

# CITY OF ROCKFORD

## Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2006

### Assets

Cash and pooled investments	\$ 123,500
Interest receivable	<u>1,165</u>
<b>Total current assets</b>	<b><u>\$ 124,665</u></b>

### Liabilities

Payroll taxes and withholdings	\$ 33,307
Due to other governmental units	35,555
Due to other entities	<u>55,803</u>
<b>Total current liabilities</b>	<b><u>\$ 124,665</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

---

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Rockford (the “City”) was incorporated June 17, 1935, under the provisions of Act 279, P.A. 1909, as amended (Home Rule City Act). The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public safety (police and fire), highways and streets, sanitation, health and social services, recreation and cultural, public improvements, planning and zoning, and general administrative services.

The accounting policies of the City conform to generally accepted accounting principles. The following is a summary of the more significant policies:

***Reporting Entity***

As required by generally accepted accounting principles, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the City.

***Discretely Presented Component Units***

Downtown Development Authority – The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Economic Development Corporation – The members of the governing board of the Economic Development Corporation are appointed by the City Council. The budgets and expenditures of the Economic Development Corporation must be approved by the City Council. The City also has the ability to significantly influence operations of the Economic Development Corporation.

Complete financial statements for the component units are not separately prepared.

***Joint Venture***

The City of Rockford is a participant in the North Kent Sewer Authority (“Authority”) (a joint venture as defined by GASB Statement No. 14). The purpose of the Authority is to construct and maintain sewage transportation infrastructure. The City utilizes the Authority to transport City of Rockford sewage to the City of Grand Rapids Sanitary Sewer System for treatment and disposal.

The City pays the Authority based on its share of sewage flow through the system to cover debt service, maintenance and administration of the Authority. The Authority was created and has outstanding insured municipal bonds of \$21,225,000 as of June 30, 2006. The City has pledged its limited faith and credit for the bonds based on City sewage flow through the system. Financial statements can be obtained by contacting the North Kent Sewer Authority, P.O. Box 561, Rockford, MI 49341-0561.

**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

---

***Government-Wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. After March 1 of each year, the delinquent real property taxes are paid by the City to other units of government and the County is responsible for collecting any outstanding real property taxes as of that date. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and accrued employee benefit expenditures are recorded only when payment is due.

**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

---

Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* is utilized to account for the accumulation of resources and for construction of public facilities.

The City reports the following major proprietary funds:

*Sewer Fund* – This fund is used to account for the cost of collecting and treating wastewater. Revenues are chiefly from service charges to customers. These revenues are also used to pay principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system. Treatment and transportation facilities are provided by the City of Grand Rapids and the North Kent Sewer Authority respectively.

*Water Fund* – The cost of providing water services to City residents is accounted for by this fund. Revenues are primarily from charges to customers for water usage. These revenues are used to pay operating costs and principal and interest on revenue bonds and general obligation bonds which were used to finance improvements to the system.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for revenue from specific revenue sources (other than major capital projects) and related expenditures which are restricted for specific purposes by administrative action or law.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

The *Library Capital Projects Fund* accounts for the accumulation and disbursement of resources for the construction of City capital projects.

The *Permanent Fund* is used to record the activity of legal trusts for which the interest on the corpus provides funds for City operations.

The *Agency Funds* are used to account for assets held on behalf of outside parties, including other governments.

**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

---

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges for services. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

***Budgets and Budgetary Accounting***

Budgets are adopted for general and special revenue funds on a basis consistent with generally accepted accounting principles (GAAP). The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all funds except Trust and Agency Funds.
5. Adoption and amendments of all budgets used by the City are governed by Public Act 621, which was followed for the year ended June 30, 2006. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures budget of the department heads of the City. Any amendments to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the City Council.
6. Budgets for expenditures are adopted at the functional level.
7. Budgeted amounts are as originally adopted, or as amended by the City Council.

**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

---

***Cash and Cash Equivalents***

For purposes of the statement of cash flows, the City considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

***Receivables***

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

***Inventory***

Inventory is valued at the lower of cost or market, on the first-in first-out basis.

***Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. The amount reported for infrastructure includes only assets added beginning in 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) of the primary government, as well as the component units, is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	25
Buildings	25 - 30
Office furniture and equipment	5 - 20
Vehicles	3 - 10
Public domain infrastructure	50
System infrastructure	30



**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

---

***Long-term Obligations***

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. For new bond issuances of governmental funds after the implementation of GASB Statement No. 34 and all proprietary fund bond issues, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Property Taxes***

City property taxes are attached as an enforceable lien on property as of July 1st. Taxes are levied July 1 and are due without penalty on or before August 10. These summer tax bills include the City's own property taxes and taxes billed on behalf of other districts within the City limits. Real property taxes not collected are returned to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

***Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

***Compensated Absences***

Under terms of union contracts and City policies, employees are granted sick leave in varying amounts. At the end of each fiscal year, each employee shall be paid for 50% of all unused sick leave above the amount allowed to be accumulated by the employee, (72 days for all departments except for police, accumulation is unlimited). Upon retirement or death, payments will be made for 50% of accumulated sick leave. Vacation time must be utilized by each employee's anniversary date and may not be carried over. Compensated absences are liquidated by the General Fund.

Accumulated unpaid sick leave is recorded on the statement of net assets. Current portions of unpaid sick leave are considered immaterial.

**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

---

***Interfund Transactions***

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the City.

***Risk Management***

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years. There was no significant change in coverage during the year.

**2. DEPOSITS AND INVESTMENTS**

The composition of cash and pooled investments on the government-wide and fund statements is as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits	\$4,182,003	\$78,175	\$123,500	\$4,383,678
Investments	787,252	-	-	787,252
	<u><b>\$4,969,255</b></u>	<u><b>\$78,175</b></u>	<u><b>\$123,500</b></u>	<u><b>\$5,170,930</b></u>

Deposits consist of the following at June 30, 2006:

Cash	\$1,595,678
Certificates of deposit (due within one year)	2,788,000
<b>Total deposits</b>	<u><b>\$4,383,678</b></u>

These deposits are in six (6) financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at cost. Interest is recorded when earned.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$3,853,592 of the City's bank balance of \$4,453,592 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

---

**Investments**

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Federal Home Loan Bank – 11/17/08	Callable 8/06, matures 11/08	\$491,095	Aaa, AAA
Federal Home Loan Bank – 2/11/10	Callable 8/06, matures 2/10	<u>296,157</u>	Aaa, AAA
		<u><u>\$787,252</u></u>	

***Investment and Deposit Risk***

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified under “statutory authority” below. The City’s investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of the City’s specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in “statutory authority” below. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year-end.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk. The City’s investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

***Statutory Authority***

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.

**CITY OF ROCKFORD**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

**3. CAPITAL ASSETS**

Changes in capital assets for the year ending June 30, 2006, are as follows:

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Dispositions</b>	<b>Balance June 30, 2006</b>
<b>Governmental activities</b>				
Capital assets, not being depreciated:				
Land	<b>\$ 1,100,056</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,100,056</b>
Capital assets, being depreciated:				
Infrastructure	250,013	10,736	-	260,749
Buildings and improvements	1,546,744	374,463	-	1,921,207
Vehicles and equipment	1,254,200	23,203	-	1,277,403
Total capital assets, being depreciated	3,050,957	408,402	-	3,459,359
Less accumulated depreciation for:				
Infrastructure	6,816	6,985	-	13,801
Buildings and improvements	531,827	44,161	-	575,988
Vehicles and equipment	605,413	90,324	-	695,737
Total accumulated depreciation	1,144,056	141,470	-	1,285,526
Net capital assets, being depreciated	<b>1,906,901</b>	<b>266,932</b>	<b>-</b>	<b>2,173,833</b>
<b>Net capital assets - governmental activities</b>	<b>\$ 3,006,957</b>	<b>\$ 266,932</b>	<b>\$ -</b>	<b>\$ 3,273,889</b>
<b>Business-type activities</b>				
Capital assets being depreciated:				
Water system	\$ 6,507,301	\$ 43,570	\$ -	\$ 6,550,871
Sewer system	4,017,832	-	-	4,017,832
Total capital assets, being depreciated	10,525,133	43,570	-	10,568,703
Less accumulated depreciation for:				
Water system	1,231,836	(111,868)	-	1,343,704
Sewer system	1,864,876	(116,307)	-	1,981,183
Total accumulated depreciation	3,096,712	(228,175)	-	3,324,887
<b>Net capital assets - business-type activities</b>	<b>\$7,428,421</b>	<b>\$(184,605)</b>	<b>\$ -</b>	<b>\$7,243,816</b>

**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2006</u>
<b>Downtown Development Authority Component Unit</b>				
Capital assets, being depreciated:				
Buildings	\$ 1,580,836	\$ -	\$ -	\$ 1,580,836
Less accumulated depreciation for:				
Buildings	<u>(304,734)</u>	<u>(31,617)</u>	<u>-</u>	<u>(336,351)</u>
<b>Net capital assets - Downtown Development Authority Component Unit</b>	<u><b>\$ 1,276,102</b></u>	<u><b>\$ (31,617)</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 1,244,485</b></u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 22,615
Public safety	73,500
Public works	24,153
Recreation and cultural	<u>21,202</u>
Total depreciation expense – governmental activities	<u>\$141,470</u>
Business-type activities:	
Sewer	\$116,307
Water	<u>111,868</u>
Total depreciation expense – business type activities	<u>\$228,175</u>

#### 4. INTERFUND TRANSFERS

The composition of transfers for the year ended June 30, 2006, is as follows:

	<u>Transfers To</u>	<u>Transfers From</u>
Governmental Funds:		
General Fund	\$ 15,162	\$401,000
Capital Projects	251,000	-
Nonmajor	<u>246,156</u>	<u>111,318</u>
<b>Total</b>	<u><b>\$512,318</b></u>	<u><b>\$512,318</b></u>

Transfers are used to: (1) move unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (2) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them.

**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

**5. DEFINED BENEFIT PENSION PLAN**

***Municipal Employees Retirement System of Michigan***

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan providing retirement, death and disability benefits covering full-time City employees. The System is administered by the MERS retirement board. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The City is required to contribute at an actuarially determined rate; the current rate is 5.7% of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adoption by the City.

For the year ended June 30, 2006 the City's annual pension cost for MERS of \$171,898 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2005 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment of 20% of the difference between assumed earnings and market value (5 year seniority) to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

**Three-Year Trend Information**

<u>Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$146,383	100%	\$ -
2005	156,115	100%	-
2006	171,898	100%	-

**Schedule of Funding Progress**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio Total</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/03	\$2,341,702	\$3,206,565	\$ 864,864	73%	\$1,572,480	55%
12/31/04	2,563,229	3,638,775	1,075,546	70%	1,654,686	65%
12/31/05	2,817,466	4,139,795	1,322,329	68%	1,622,177	82%

**CITY OF ROCKFORD**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

---

**6. DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the plan are held in trust for employees and the related assets and liabilities are not included in this report.

**7. LONG-TERM DEBT**

The following is a summary of debt transactions of the City for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
5.05% Transportation Bonds, series 1999; payable in annual amounts of \$45,000 to \$90,000 through 2015	\$ 740,000	\$ -	\$ 60,000	\$680,000	\$ 60,000
3.19% Installment Note; payable in annual amounts of \$32,090 to \$36,486 through 2010	175,760		33,183	142,577	34,250
3.84% Installment Note; payable in Semi-annual amounts of \$9,260 to \$11,849 through 2016	-	200,000	-	200,000	17,674
Bonds/Notes Total	915,760	200,000	93,183	1,022,577	111,924
Accrued employee benefits	189,540	4,446	-	193,986	-
<b>Total governmental activities</b>	<b>\$1,105,300</b>	<b>\$204,446</b>	<b>\$93,183</b>	<b>\$1,216,563</b>	<b>\$111,924</b>

**CITY OF ROCKFORD**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
<b>Business-type activities</b>					
7.5% - 12% Water Construction Revenue Bonds, payable annually through 2006	\$ 45,000	\$ -	\$45,000	\$ -	\$ -
5.25 – 7.0% Water Supply System Revenue Bonds 1997, payable in annual amounts of \$35,000 to \$75,000 through 2013	560,000	-	35,000	525,000	75,000
6% – 9.96% 1991 Water Supply System Revenue Bonds, payable in annual amounts of \$50,000 to \$60,000 through 2009	225,000	-	50,000	175,000	55,000
1999 2.5% MI Drinking Water Revolving Fund Loan, payable in annual amounts of \$110,000 to \$150,000 through 2018	1,825,000	-	110,000	1,715,000	115,000
2.0% - 3.625% Local Government Loan Program Revenue Refunding Bonds, Series 2002B; payable in annual amounts of \$115,000 to \$185,000 through 2013	1,295,000	-	145,000	1,150,000	145,000
4.0% - 4.050% Capital Improvement Bonds, Series 2003, payable in annual amounts of \$20,000 to \$40,000 through 2023	525,000	-	20,000	505,000	20,000
Bonds/Loans Total	4,475,000	-	405,000	4,070,000	410,000
Unamortized discounts	(21,614)	-	(4,540)	(17,074)	-
<b>Total business-type activities</b>	<b>\$4,453,386</b>	<b>\$ -</b>	<b>\$400,460</b>	<b>\$4,052,926</b>	<b>\$410,000</b>
<b>Downtown Development Authority Component Unit</b>					
5% - 5.25% Limited Tax Development Bonds, Series 1997, payable in annual amounts of \$60,000 to \$95,000 through 2013	<u>\$620,000</u>	<u>\$ -</u>	<u>\$60,000</u>	<u>\$560,000</u>	<u>\$65,000</u>



**CITY OF ROCKFORD**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

The annual requirements, excluding accrued employee benefits and unamortized discounts, to maturity on the total long-term obligations outstanding at June 30, 2006 are as follows:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Component Unit</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2007	\$ 111,924	\$ 43,580	\$ 410,000	\$136,950	\$ 65,000	\$ 29,237
2008	117,667	39,682	420,000	122,506	70,000	25,988
2009	124,475	34,458	430,000	107,187	75,000	22,312
2010	125,171	29,059	380,000	91,237	80,000	18,375
2011	94,409	23,808	395,000	78,037	85,000	14,175
2012-2016	448,931	46,929	1,315,000	206,633	185,000	14,700
2017-2021	-	-	605,000	62,470	-	-
2022-2023	-	-	115,000	7,189	-	-
	<b><u>\$1,022,577</u></b>	<b><u>\$217,516</u></b>	<b><u>\$4,070,000</u></b>	<b><u>\$812,209</u></b>	<b><u>\$560,000</u></b>	<b><u>\$124,787</u></b>

Compensated absences are expected to be liquidated by the general fund.

***Advance Refunding***

During prior years, the City of Rockford issued \$1,130,000 of City of Rockford sewer revenue bonds to provide resources to purchase U.S. Government securities that were placed in an escrow fund for the purpose of generating resources for all future debt service payments on \$1,580,000 on refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The remaining balance of this debt is \$1,130,000.

**8. LITIGATION**

In the normal course of its activities, the City has become a party in various legal actions, including property tax assessment appeals. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City and, therefore, has not reflected loss reserves in the financial statements.

**9. SUBSEQUENT EVENT**

Subsequent to June 30, 2006 the City issued an installment purchase agreement in the amount of \$400,000 to finance capital improvements to Peppler Park.

\* \* \* \* \*

# CITY OF ROCKFORD

## Combining Balance Sheet Nonmajor Governmental Funds

June 30, 2006

	Special Revenue				
	Major Streets	Local Streets	Budget Stabilization	Library	Cemetery
<b>Assets</b>					
Cash and pooled investments	\$ 299,986	\$ 66,893	\$ 115,621	\$ 62,068	\$ 274,332
Interest receivable	2,599	580	1,041	537	2,469
Due from other governmental units	32,000	13,000	-	-	-
<b>Total assets</b>	<b>\$ 334,585</b>	<b>\$ 80,473</b>	<b>\$ 116,662</b>	<b>\$ 62,605</b>	<b>\$ 276,801</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 4,955	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	680	680	-	219	-
<b>Total liabilities</b>	<b>5,635</b>	<b>680</b>	<b>-</b>	<b>219</b>	<b>-</b>
<b>Fund balances</b>					
Reserved for library endowment	-	-	-	-	-
Unreserved - undesignated	328,950	79,793	116,662	62,386	276,801
<b>Total fund balances</b>	<b>328,950</b>	<b>79,793</b>	<b>116,662</b>	<b>62,386</b>	<b>276,801</b>
<b>Total liabilities and fund balances</b>	<b>\$ 334,585</b>	<b>\$ 80,473</b>	<b>\$ 116,662</b>	<b>\$ 62,605</b>	<b>\$ 276,801</b>



# CITY OF ROCKFORD

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds

For the Year Ended June 30, 2006

	Special Revenue				
	Major Streets	Local Streets	Budget Stabilization	Library	Cemetery
<b>Revenues</b>					
Intergovernmental revenue:					
State	\$ 194,471	\$ 79,741	\$ -	\$ 8,555	\$ -
Interest and rentals	10,247	2,495	4,239	2,348	9,961
Other	-	-	-	1,081	18,000
<b>Total revenues</b>	204,718	82,236	4,239	11,984	27,961
<b>Expenditures</b>					
Current:					
Public works	106,872	67,459	-	-	-
Recreation and cultural	-	-	-	29,647	-
Debt service:					
Principal	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	-	-	-	-
<b>Total expenditures</b>	106,872	67,459	-	29,647	-
Revenues over (under) expenditures	97,846	14,777	4,239	(17,663)	27,961
<b>Other financing sources (uses)</b>					
Transfers in	70,000	60,000	-	20,000	-
Transfers (out)	(48,078)	(48,078)	(4,524)	-	(10,638)
<b>Total other financing sources (uses)</b>	21,922	11,922	(4,524)	20,000	(10,638)
Net change in fund balances	119,768	26,699	(285)	2,337	17,323
Fund balances, beginning of year	209,182	53,094	116,947	60,049	259,478
<b>Fund balances, end of year</b>	<u>\$ 328,950</u>	<u>\$ 79,793</u>	<u>\$ 116,662</u>	<u>\$ 62,386</u>	<u>\$ 276,801</u>

Debt Service	Capital Projects		Permanent Fund	
	Library	Library Endowment	Totals	
\$	-	\$	-	\$
	-	1,504	5,171	35,965
	-	-	2,079	21,160
	-	1,504	7,250	339,892
	-	-	-	174,331
	-	-	2,517	32,164
60,000		-	-	60,000
36,156		-	-	36,156
-	6,486		-	6,486
96,156	6,486		2,517	309,137
(96,156)	(4,982)		4,733	30,755
96,156		-	-	246,156
-		-	-	(111,318)
96,156		-	-	134,838
-	(4,982)		4,733	165,593
-	43,728		142,478	884,956
\$	-	\$	38,746	\$
			147,211	\$
				1,050,549

# CITY OF ROCKFORD

## Major Streets Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

**For the Year Ended June 30, 2006**

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Intergovernmental revenue:				
State	\$ 205,000	\$ 205,000	\$ 194,471	\$ (10,529)
Interest and rentals	1,500	1,500	10,247	8,747
<b>Total revenues</b>	<u>206,500</u>	<u>206,500</u>	<u>204,718</u>	<u>(1,782)</u>
<b>Expenditures</b>				
Highways and streets:				
Construction	85,000	85,000	34,496	(50,504)
Routine maintenance	45,120	45,120	39,114	(6,006)
Traffic control	9,025	9,025	7,370	(1,655)
Winter maintenance	17,810	17,810	15,123	(2,687)
Administration	9,820	11,820	10,769	(1,051)
<b>Total expenditures</b>	<u>166,775</u>	<u>168,775</u>	<u>106,872</u>	<u>(61,903)</u>
Revenues over (under) expenditures	39,725	37,725	97,846	60,121
<b>Other financing sources (uses)</b>				
Transfers in	70,000	70,000	70,000	-
Transfers (out)	(48,100)	(48,100)	(48,078)	22
<b>Other financing sources (uses)</b>	<u>21,900</u>	<u>21,900</u>	<u>21,922</u>	<u>22</u>
Net change in fund balances	61,625	59,625	119,768	60,143
Fund balance, beginning of year	<u>209,182</u>	<u>209,182</u>	<u>209,182</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 270,807</u></u>	<u><u>\$ 268,807</u></u>	<u><u>\$ 328,950</u></u>	<u><u>\$ 60,143</u></u>

# CITY OF ROCKFORD

## Local Streets Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Intergovernmental revenue:				
State	\$ 82,000	\$ 82,000	\$ 79,741	\$ (2,259)
Interest and rentals	500	500	2,495	1,995
<b>Total revenues</b>	82,500	82,500	82,236	(264)
<b>Expenditures</b>				
Highways and streets:				
Routine maintenance	44,620	44,620	38,799	(5,821)
Traffic control	3,105	3,105	1,070	(2,035)
Winter maintenance	24,165	24,165	16,852	(7,313)
Administration	10,095	12,095	10,738	(1,357)
<b>Total expenditures</b>	81,985	83,985	67,459	(16,526)
Revenues over (under) expenditures	515	(1,485)	14,777	16,262
<b>Other financing sources (uses)</b>				
Transfers in	60,000	60,000	60,000	-
Transfers (out)	(48,100)	(48,100)	(48,078)	22
<b>Other financing sources (uses)</b>	11,900	11,900	11,922	22
Net change in fund balances	12,415	10,415	26,699	16,284
Fund balance, beginning of year	53,094	53,094	53,094	-
<b>Fund balance, end of year</b>	<u>\$ 65,509</u>	<u>\$ 63,509</u>	<u>\$ 79,793</u>	<u>\$ 16,284</u>

# CITY OF ROCKFORD

## Budget Stabilization Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Interest	\$ 1,500	\$ 1,500	\$ 4,239	\$ 2,739
<b>Other financing uses</b>				
Transfers (out)	(1,500)	(3,000)	(4,524)	(1,524)
Net change in fund balances	-	(1,500)	(285)	1,215
Fund balance, beginning of year	116,947	116,947	116,947	-
<b>Fund balance, end of year</b>	<u>\$ 116,947</u>	<u>\$ 115,447</u>	<u>\$ 116,662</u>	<u>\$ 1,215</u>



# CITY OF ROCKFORD

## Library Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Interest and rentals	\$ 1,200	\$ 1,200	\$ 2,348	\$ 1,148
Kent District Library	8,555	8,555	8,555	-
Other	200	200	1,081	881
<b>Total revenues</b>	<b>9,955</b>	<b>9,955</b>	<b>11,984</b>	<b>2,029</b>
<b>Expenditures</b>				
Recreation and cultural:				
Personnel services	13,330	13,330	11,771	(1,559)
Operating supplies	1,150	1,150	1,076	(74)
Professional services	3,850	3,850	2,356	(1,494)
Insurance and bonds	202	202	157	(45)
Utilities	12,700	12,700	13,336	636
Miscellaneous	1,300	1,300	951	(349)
<b>Total expenditures</b>	<b>32,532</b>	<b>32,532</b>	<b>29,647</b>	<b>(2,885)</b>
Revenues over (under) expenditures	(22,577)	(22,577)	(17,663)	4,914
<b>Other financing sources</b>				
Transfers in	20,000	20,000	20,000	-
Net change in fund balances	(2,577)	(2,577)	2,337	4,914
Fund balance, beginning of year	60,049	60,049	60,049	-
<b>Fund balance, end of year</b>	<b>\$ 57,472</b>	<b>\$ 57,472</b>	<b>\$ 62,386</b>	<b>\$ 4,914</b>

# CITY OF ROCKFORD

## Cemetery Special Revenue Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Final Budget
<b>Revenues</b>				
Interest and rentals	\$ 3,000	\$ 3,000	\$ 9,961	\$ 6,961
Other	20,000	20,000	18,000	(2,000)
<b>Total revenues</b>	23,000	23,000	27,961	4,961
<b>Other financing sources</b>				
Transfers out	(3,000)	(8,000)	(10,638)	(2,638)
Net change in fund balances	20,000	15,000	17,323	2,323
Fund balance, beginning of year	259,478	259,478	259,478	-
<b>Fund balance, end of year</b>	<u>\$ 279,478</u>	<u>\$ 274,478</u>	<u>\$ 276,801</u>	<u>\$ 2,323</u>

# CITY OF ROCKFORD

## Fiduciary Funds Combining Balance Sheet

June 30, 2006

	Agency Funds			Total
	Arts Commission	Trust And Agency	Imprest Payroll	
<b>Assets</b>				
Cash and pooled investments	\$ 55,324	\$ 35,169	\$ 33,007	\$ 123,500
Interest receivable	479	386	300	1,165
<b>Total assets</b>	<b>\$ 55,803</b>	<b>\$ 35,555</b>	<b>\$ 33,307</b>	<b>\$ 124,665</b>
<b>Liabilities</b>				
Payroll taxes and withholdings	\$ -	\$ -	\$ 33,307	\$ 33,307
Due to other governmental units	-	35,555	-	35,555
Due to other entites	55,803	-	-	55,803
<b>Total liabilities</b>	<b>\$ 55,803</b>	<b>\$ 35,555</b>	<b>\$ 33,307</b>	<b>\$ 124,665</b>

# CITY OF ROCKFORD

## Downtown Development Authority Balance Sheet / Statement of Net Assets

June 30, 2006

	Operating Fund	Adjustments	Statement of Net Assets
<b>Assets</b>			
Cash and pooled investments	\$ 75,968	\$ -	\$ 75,968
Receivables:			
Accounts	745	-	745
Interest	658	-	658
Capital assets	-	1,244,485	1,244,485
<b>Total assets</b>	<u>\$ 77,371</u>	<u>1,244,485</u>	<u>1,321,856</u>
<b>Liabilities and fund balance/net assets</b>			
<b>Liabilities</b>			
Other accrued liabilities	\$ 1,271	12,182	13,453
General obligation debt payable	-	560,000	560,000
	<u>1,271</u>	<u>572,182</u>	<u>573,453</u>
<b>Fund balance</b>			
Unreserved - undesignated	<u>76,100</u>	<u>(76,100)</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u>\$ 77,371</u>		
<b>Net assets</b>			
Invested in capital assets, net of related debt		684,485	684,485
Unrestricted		<u>63,918</u>	<u>63,918</u>
<b>Total net assets</b>		<u>\$ 748,403</u>	<u>\$ 748,403</u>

# CITY OF ROCKFORD

## Downtown Development Authority Statement of Activities and Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	Operating Fund	Adjustments	Statement of Activities
<b>Revenues</b>			
Taxes	\$ 151,846	\$ -	\$ 151,846
Interest and rentals	3,539	-	3,539
Other	5,000	-	5,000
<b>Total revenues</b>	160,385	-	160,385
<b>Expenditures/expenses</b>			
General government	14,001	30,366	44,367
Debt service:			
Principal	60,000	(60,000)	-
Interest and fiscal charges	32,538	-	32,538
Capital outlay	16,423	-	16,423
<b>Total expenditures/expenses</b>	122,962	(29,634)	93,328
Revenues over (under) expenditures	37,423	(37,423)	-
Changes in net assets	-	67,057	67,057
Fund balances/net assets, beginning of year	38,677		681,346
<b>Fund balances/net assets, end of year</b>	<u>\$ 76,100</u>		<u>\$ 748,403</u>

# CITY OF ROCKFORD

## Schedule of Indebtedness

June 30, 2006

	Interest Rates	Interest Dates	Issue Date	Final	Obligations			Principal Payments		
				Maturity Date	Issued	Retired	Outstanding	Date	Amount	
General Obligation Debt										
Transportation Fund Bonds, Series 1999	5.05%	8/1-2/1		08/01/2014	\$ 995,000	\$ 315,000	\$ 680,000	08/01/2006	\$ 60,000	
								08/01/2007	65,000	
								08/01/2008	70,000	
								08/01/2009	70,000	
								08/01/2010	75,000	
								08/01/2011	80,000	
								08/01/2012	85,000	
								08/01/2013	85,000	
								08/01/2014	90,000	
									680,000	
Installment Note	3.19%	10/1- 4/1	05/15/2003	10/01/2009	240,000	97,423	142,577	10/01/2006	34,250	
								10/01/2007	35,352	
								10/01/2008	36,488	
								10/01/2009	36,486	
									142,577	
2006 Capital Improvement Note (Limited Tax General Obligation)	3.84%	3/1 - 9/1	04/19/2006	03/01/2016	200,000	-	200,000	09/01/2006	9,260	
								03/01/2007	8,414	
								09/01/2007	8,575	
								03/01/2008	8,740	
								09/01/2008	8,908	
								03/01/2009	9,079	
								09/01/2009	9,253	
								03/01/2010	9,431	
								09/01/2010	9,612	
								03/01/2011	9,797	
								09/01/2011	9,985	
								03/01/2012	10,176	
								09/01/2012	10,372	
								03/01/2013	10,571	
								09/01/2013	10,774	
								03/01/2014	10,981	
								09/01/2014	11,192	
03/01/2015	11,406									
09/01/2015	11,625									
03/01/2016	11,849									
	200,000									
Accrued Employee Benefits									193,986	
Total General Obligation Debt									1,216,563	
Downtown Development Authority Component Unit Debt										
Limited Tax Development Bonds Series 1997	5-5.25%	2/1- 8/1	11/01/1997	02/01/2013	900,000	340,000	560,000	02/01/2007	65,000	
								02/01/2008	70,000	
								02/01/2009	75,000	
								02/01/2010	80,000	
								02/01/2011	85,000	
								02/01/2012	90,000	
								02/01/2013	95,000	
Total Component Unit Debt									560,000	

(Continued)

# CITY OF ROCKFORD

## Schedule of Indebtedness (Continued)

June 30, 2006

	Interest Rates	Interest Dates	Issue Date	Final Maturity Date	Obligations		Principal Payments		
					Issued	Retired	Outstanding	Date	Amount
Enterprise Funds									
Water Supply System Revenue Bonds	6 - 9.96%	5/1 - 11/1	05/01/1990	05/01/2009	\$ 785,000	\$ 610,000	\$ 175,000	05/01/2007	\$ 55,000
								05/01/2008	60,000
								05/01/2009	60,000
									<u>175,000</u>
Water Supply System Revenue Bonds	5.25-7.0%	2/1 - 8/1	12/01/1997	05/01/2013	680,000	155,000	525,000	05/01/2007	75,000
								05/01/2008	75,000
								05/01/2009	75,000
								05/01/2010	75,000
								05/01/2011	75,000
								05/01/2012	75,000
								05/01/2013	75,000
									<u>525,000</u>
Drinking Water Revolving Fund Bonds	2.5%	4/1 - 10/1	08/25/1998	10/01/2009	2,040,000	215,000	1,715,000	10/01/2006	115,000
								10/01/2007	115,000
								10/01/2008	120,000
								10/01/2009	120,000
								10/01/2010	125,000
								10/01/2011	130,000
								10/01/2012	130,000
								10/01/2013	135,000
								10/01/2014	140,000
								10/01/2015	140,000
								10/01/2016	145,000
								10/01/2017	150,000
								10/01/2018	150,000
									<u>1,715,000</u>

(Continued)

# CITY OF ROCKFORD

## Schedule of Indebtedness (Continued)

June 30, 2006

	Interest Rates	Interest Dates	Issue Date	Final Maturity Date	Obligations		Principal Payments		
					Issued	Retired	Outstanding	Date	Amount
Local Government Loan Program Revenue Refunding Bonds, Series 2002B	2 - 3.625%	11/1 - 5/1	1/1/01/2002	05/01/2013	\$ 1,680,000	\$ 530,000	\$ 1,150,000	05/1/2007	\$ 145,000
								05/1/2008	150,000
								05/1/2009	155,000
								05/01/2010	165,000
								05/01/2011	170,000
								05/01/2012	180,000
								05/01/2013	185,000
									<u>1,150,000</u>
Capital Improvement Bonds, Series 2003	4 - 4.050%	10/1 - 4/1	04/24/2003	10/01/2023	545,000	40,000	505,000	10/01/2006	20,000
								10/01/2007	20,000
								10/01/2008	20,000
								10/01/2009	20,000
								10/01/2010	25,000
								10/01/2011	25,000
								10/01/2012	25,000
								10/01/2013	25,000
								10/01/2014	25,000
								10/01/2015	25,000
								10/01/2016	30,000
								10/01/2017	30,000
								10/01/2018	30,000
								10/01/2019	35,000
								10/01/2020	35,000
								10/01/2021	35,000
								10/01/2022	40,000
								10/01/2023	40,000
									<u>505,000</u>
Total Enterprise Funds									<u>4,070,000</u>
Total Long-Term Obligations - Reporting Entity									<u>\$ 5,846,563</u>

(Concluded)





# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

August 10, 2006

Honorable Mayor and  
Members of the City Council  
City of Rockford, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Rockford, Michigan, as of and for the year ended June 30, 2006 which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Rockford, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Rockford, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

# **Continuing Disclosure Filing**

City of Rockford, Michigan

*Fiscal Year Ended  
June 30, 2006*

LIST OF CURRENT  
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES  
INFORMATION REPOSITORIES (NRMSIRs)

Standard & Poor's J.J. Kenny Repository  
55 Water Street – 45th Floor  
New York, New York 10041  
Phone: (212) 438-4595  
Fax: (212) 438-3975

Bloomberg Municipal Repositories  
P.O. Box 840  
Princeton, NJ 08542-0840  
Phone: (609) 279-3225  
Fax: (609) 279-5962  
E-mail: Munis@Bloomberg.com

FT Interactive Data  
Attn: NRMSIR  
100 Williams Street  
New York, New York 10038  
Phone: (212) 771-6999  
Fax: (212) 771-7390 (Secondary Market)  
Fax: (212) 771-7391 (Primary Market)  
E-mail: Nrmsir@FTID.com

DPC Data Inc.  
One Executive Drive  
Fort Lee, NJ 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
E-mail: nrmsir@dpccdata.com

STATE INFORMATION REPOSITORY

Municipal Advisory Council of Michigan  
1445 First National Building  
Detroit, Michigan 48226-3517  
Phone: 313-963-0420  
Fax: 313-963-0943

# MUNICIPAL SECONDARY MARKET DISCLOSURE

## INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission Rule 15c2-12.

Issuer's and/or Other Obligated Person's Name: City of Rockford, Michigan

**CUSIP Numbers** (attach additional sheet if necessary):

- ☐ Nine-digit number(s) to which the information relates:  
☒ Information relates to **all securities** issued by the issuer having the following six-digit number(s): 660294  
\* \* \*

Number of pages of attached information: \_\_\_\_\_

Description of Material Event Notice / Financial Information (Check One):

1. \_\_\_\_\_ Principal and interest payment delinquencies
2. \_\_\_\_\_ Non-Payment related defaults
3. \_\_\_\_\_ Unscheduled draws on debt service reserves reflecting financial difficulties
4. \_\_\_\_\_ Unscheduled draws on credit enhancements reflecting financial difficulties
5. \_\_\_\_\_ Substitution of credit or liquidity providers, or their failure to perform
6. \_\_\_\_\_ Adverse tax opinions or events affecting the tax-exempt status of the security
7. \_\_\_\_\_ Modifications to rights of securities holders
8. \_\_\_\_\_ Bond calls
9. \_\_\_\_\_ Defeasances
10. \_\_\_\_\_ Release, substitution, or sale of property securing repayment of the securities
11. \_\_\_\_\_ Rating changes
12. \_\_\_\_\_ Failure to provide annual financial information.
13. \_\_\_\_\_ Other material event notice (specify)
14.  X  Financial information\*: Please check all appropriate boxes:

☐ CAFR: (a) ☐ includes ☐ does not include Annual Financial Information  
(b) Audited? Yes ☐ No ☐

☒ Annual Financial Information: Audited? Yes ☒ No ☐

☒ Operating Data

Fiscal Period Covered: July 1, 2005 – June 30, 2006

\*Financial information **should not** be filed with the MSRB

\* \* \*

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: \_\_\_\_\_

Name: Jeff Dood Title: Finance Director

Employer: City of Rockford, Michigan

Address: 7 South Monroe Street

City, State, Zip Code: Rockford, Michigan 49341-0561

Voice Telephone Number: 616-866-1537

**City of Rockford**  
**Taxable Value**  
**Fiscal Years Ended or Ending June 30, 2003 Through 2007**

Assessed Value as of <u>December 31</u>	Year of State Equalization and Tax Levy	City's Fiscal Years Ended or Ending <u>June 30</u>	Ad Valorem Taxable Value	Equivalent Taxable Value of Property Granted Tax Abatement Under Acts 198 And 255 (1)	Total Taxable Value	Percent Increase Over Prior Year
2001	2002	2003	\$159,238,724	\$10,018,812	\$169,257,536	10.72
2002	2003	2004	168,508,212	9,616,439	178,124,651	5.24
2003	2004	2005	177,999,909	8,975,095	186,975,004	4.97
2004	2005	2006	192,770,253	8,734,017	201,504,270	7.78
2005	2006	2007	204,629,065	8,792,073	213,421,138	5.91
Per Capita Total Taxable Value for the Fiscal Year Ending June 30, 2007 (2) .....						\$46,135.14

(1) At the full tax rate. See "CITY TAXATION AND LIMITATIONS – Tax Abatement" herein.

(2) Based on the City's 2000 census population of 4,626.

Source: City of Rockford

**City of Rockford**  
**Total Taxable Value by Use and Class**  
**Fiscal Years Ended or Ending June 30, 2003 Through 2007**

	Fiscal Years Ended or Ending June 30				
<u>Use</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Agriculture.....	\$ 109,753	\$ 94,146	\$ 95,537	\$ 95,537	\$
Commercial .....	37,674,755	41,652,483	41,868,503	40,952,383	43,494,244
Industrial.....	40,267,283	38,189,128	38,312,795	41,249,998	41,563,236
Residential .....	88,929,445	95,893,194	103,940,259	116,376,071	126,534,858
Utility .....	<u>2,276,300</u>	<u>2,295,700</u>	<u>2,757,910</u>	<u>2,830,281</u>	<u>1,828,800</u>
	<u>\$ 169,257,536</u>	<u>\$ 178,124,651</u>	<u>\$ 186,975,004</u>	<u>\$ 201,504,270</u>	<u>\$ 213,421,138</u>
<u>Class</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Real Property.....	\$ 138,581,586	\$ 148,421,251	\$ 158,548,344	\$ 171,042,795	\$ 184,569,812
Personal Property .....	<u>30,675,950</u>	<u>29,703,400</u>	<u>28,426,660</u>	<u>30,461,475</u>	<u>28,851,326</u>
	<u>\$ 169,257,536</u>	<u>\$ 178,124,651</u>	<u>\$ 186,975,004</u>	<u>\$ 201,504,270</u>	<u>\$ 213,421,138</u>

Source: City of Rockford

**City of Rockford**  
**State Equalized Valuation**  
**Fiscal Years Ended or Ending June 30, 2003 Through 2007**

Assessed Value as of December 31	Year of State Equalization and Tax Levy	City's Fiscal Years Ended or Ending June 30	Ad Valorem SEV	SEV of Property Granted Tax Abatement Under Acts 198 and 255 (1)	Total SEV	Percent Increase Over Prior Year
2001	2002	2003	\$173,380,800	\$20,142,500	\$193,523,300	10.87%
2002	2003	2004	185,981,800	19,392,100	205,373,900	6.12
2003	2004	2005	197,713,200	18,748,400	216,461,600	5.40
2004	2005	2006	216,397,100	18,215,700	234,612,800	8.39
2005	2006	2007	225,588,700	17,894,200	243,482,900	3.78
Per Capita Total SEV for the Fiscal Year Ending June 30, 2007 (2) .....						\$52,633.57

(1) See "CITY TAXATION AND LIMITATIONS – Tax Abatement", herein.

(2) Based on the City's 2000 census population of 4,626.

Source: City of Rockford

**City of Rockford**  
**Total SEV by Use and Class**  
**Fiscal Years Ended or Ending June 30, 2003 Through 2007**

	Fiscal Years Ended or Ending June 30				
Use	2003	2004	2005	2006	2007
Agriculture.....	\$ 115,000	\$ 98,600	\$ 98,600	\$ 98,600	\$ -
Commercial .....	40,503,100	44,611,200	45,156,700	45,277,800	47,307,700
Industrial.....	53,482,100	51,374,300	52,160,600	54,899,600	54,262,700
Residential.....	97,146,800	106,994,100	116,147,500	131,414,100	140,083,700
Utility .....	2,276,300	2,295,700	2,898,200	2,922,700	1,828,800
	<u>\$193,523,300</u>	<u>\$205,373,900</u>	<u>\$216,461,600</u>	<u>\$234,612,800</u>	<u>\$243,482,900</u>
Class	2003	2004	2005	2006	2007
Real Property.....	\$158,841,000	\$172,181,200	\$185,053,300	\$201,599,000	\$212,364,200
Personal Property .....	34,682,300	33,192,700	31,408,300	33,013,800	31,118,700
	<u>\$193,523,300</u>	<u>\$205,373,900</u>	<u>\$216,461,600</u>	<u>\$234,612,800</u>	<u>\$243,482,900</u>

Source: City of Rockford

## **Tax Abatement**

The City's Taxable Value does not include the value of certain facilities which have temporarily been removed from the Ad Valorem Tax Roll pursuant to Act 198 or Act 255 (the "Acts"). The Acts were designed to provide a stimulus in the form of significant tax incentives to industry and commercial enterprises to renovate and expand aging facilities ("Rehab Properties") and to build new facilities ("New Properties"). Except as indicated below, under the provisions of the Acts, a local governmental unit (i.e., a city, village or township) may establish plant rehabilitation districts, industrial development districts, and commercial redevelopment districts and offer industrial and commercial firms certain property tax incentives or abatements to encourage restoration or replacement of obsolete facilities and to attract new facilities to the area.

An industrial or commercial facilities exemption certificate granted under either of the Acts entitles an eligible facility to exemption from Ad Valorem Taxes for a period of up to 12 years. In lieu of Ad Valorem Taxes, the eligible facility will pay an industrial facilities or commercial facilities tax (the "IFT Tax" and "CFT Tax", respectively). For properties granted tax abatement under Act 198 or Act 255 there exists separate tax rolls referred to as the industrial facilities tax roll (the "IFT Tax Roll") and the commercial facilities tax roll (the "CFT Tax Roll"), respectively. The IFT or CFT Tax for an obsolete facility which is being restored or replaced is determined in exactly the same manner as the Ad Valorem Tax; the important difference being that the value of the property remains at the Taxable Value level prior to the improvements even though the restoration or replacement substantially increases the value of the facility. For a new facility the IFT or CFT Tax is also determined the same as the Ad Valorem Tax but instead of using the total mills levied as Ad Valorem Taxes, a lower millage rate is applied. For abatements granted prior to 1994, this millage rate equals 1/2 of all tax rates levied by other than the state and local school district for operating purposes plus 1/2 of the 1993 rate levied by the local school district for operating purposes. For abatements granted after 1994, this millage rate equals 1/2 of all tax rates levied by other than the State plus none, 1/2 or all of the State tax rate (as determined by the State Treasurer). Act 255 expired as an effective statute of the State on December 31, 1986 and tax abatements granted to commercial facilities under Act 255 prior to December 31, 1986 have expired.

The City has established goals, objectives and procedures to provide the opportunity for industrial and commercial development and expansion. Since 1974, the City has approved a number of applications for local property tax relief for industrial and commercial firms. Most abatements have been for new industrial facilities. The SEV of properties which have been granted tax abatement under the Acts, removed from the Ad Valorem Tax Roll and placed on the IFT Tax Rolls totaled \$17,894,200 for the fiscal year ending June 30, 2007. The IFT Taxes paid on these properties is equivalent to Ad Valorem Taxes paid on \$8,792,073 of Taxable Value at the full tax rate (the "Equivalent Taxable Value"). Upon expiration of the industrial or commercial facilities exemption certificates the current equalized valuation of the abated properties will return to the Ad Valorem Tax Roll as Taxable Value.

**City of Rockford**  
**Maximum Property Tax Rates**  
**Fiscal Year Ending June 30, 2006**

<u>Millage Classification</u>	<u>Millage Authorized</u>	<u>Applicable Millage Reduction Fraction (1)</u>	<u>Maximum Allowable Millage</u>
Operating .....	16.0000	0.8769	14.0311

(1) Cumulative.  
Source: City of Rockford

**City of Rockford**  
**Property Tax Rates**  
**Fiscal Years Ended or Ending June 30, 2003 Through 2007**

<u>Levy July 1</u>	<u>Fiscal Year Ended or Ending June 30</u>	<u>Operating</u>
2002	2003	10.9000
2003	2004	10.9000
2004	2005	10.9000
2005	2006	10.9000
2006	2007	10.9000

Source: City of Rockford

**City of Rockford**  
**Property Tax Collections**  
**Fiscal Years Ended or Ending June 30, 2003 Through 2007**

<u>July 1 Levy</u>	<u>Fiscal Years Ended or Ending June 30</u>	<u>Tax Levy(1)</u>	<u>Collections to March 1 Following Levy</u>	<u>Percent Collected</u>
2002	2003	\$1,735,702	\$ 1,726,502	99.47%
2003	2004	1,836,739	1,829,131	99.59
2004	2005	1,926,000	1,925,341	99.96
2005	2006	2,080,000	2,053,232	98.71
2006	2007	2,230,000	(In Process of Collecting)	

(1) City taxes only. Does not include taxes on properties granted tax abatement under Acts 198 and 255.  
Source: City of Rockford



**City of Rockford**  
**Ten Largest Taxpayers**  
**Fiscal Year Ending June 30, 2007**

<u>Taxpayer</u>	<u>Principal Product or Service</u>	<u>Taxable Value (1)</u>	<u>Percent of Total (2)</u>
Wolverine World Wide, Inc. ....	Industrial Mfg - Shoes.....	\$20,400,079	9.56 %
ITW / Dahti Seating.....	Industrial Mfg - Furniture.....	3,851,778	1.81
Grinwood / Champion .....	Health Club / Med Office & Retail .....	4,816,654	2.26
Byrne Electrical Spec .....	Industrial Mfg – Wire Harness.....	3,248,070	1.52
Jade Pig.. .....	Shopping Center.....	3,811,300	1.79
Kalfact Plastics .....	Industrial MFG – Injection Molding .....	3,130,500	1.47
NSHE Lock Haven LLC.....	Industrial MFG – Real Property.....	1,754,400	0.82
Redstone Group .....	New Home Development .....	2,816,100	1.32
Marcell Ridge .....	Apartments .....	2,115,700	0.99
RCW3 / Alloy Exchange .....	Industrial MFG – Thermoplastic Recy.....	<u>1,014,616</u>	<u>0.46</u>
		<u>\$ 48,584,152</u>	<u>22.76 %</u>

(1) Includes the Equivalent Taxable Value of property granted tax abatement under Act 198.

(2) Based on \$213,421,138 which is the City's Total Taxable Value for its fiscal year ending June 30, 2007. Includes the Equivalent Taxable Value of property granted tax abatement under Act 198.

Source: City of Rockford

## **CITY DEBT**

### **Statutory and Constitutional Debt Provisions**

Section 21 of Article VII of the Michigan Constitution establishes the authority, subject to statutory and constitutional limitations, for municipalities to incur debt for public purposes:

“The legislature shall provide by general laws for the incorporation of cities and villages. Such laws shall limit their rate of ad valorem property taxation for municipal purposes, and restrict the powers of cities and villages to borrow money and contract debts. Each city and village is granted power to levy other taxes for public purposes, subject to limitations and prohibitions provided by this constitution or by law.”

In accordance with the foregoing authority granted to the State Legislature, the Home Rule Cities Act, Act 275 of the Public Acts of Michigan of 1909, as amended, limits the amount of debt a city may have outstanding at any time. Section 4(a) of this Act provides:

“... the net indebtedness incurred for all public purpose may be as much as but shall not exceed the greater of the following:

- (a) Ten percent of the assessed value of all real and personal property in the city.
- (b) Fifteen percent of the assessed value of all the real and personal property in the city if that portion of the total amount of indebtedness incurred which exceeds 10% is or has been used solely for the construction or renovation of hospital facilities.”

Significant exceptions to the debt limitation have been permitted by the Home Rule Cities Act for certain types of indebtedness which include: special assessment bonds and Michigan transportation fund bonds (formerly, motor vehicle highway fund bonds), even though they are a general obligation of the City; revenue bonds payable from revenues only, whether secured by a mortgage or not; bonds issued or contract obligations assessments incurred to comply with an order of the Water Resources Commission of the State of Michigan or a court of competent jurisdiction, obligations incurred for water supply, sewage, drainage or refuse disposal or resource recovery projects necessary to protect the public health by abating pollution and bonds issued or assessments or contract obligations incurred for the construction, improvement or replacement of a combined sewer overflow abatement facility.

## Legal Debt Margin

Pursuant to the statutory and constitutional debt provisions set forth herein, the following table reflects the amount of additional debt the City may legally incur as of August 2, 2006.

Debt Limit (1) .....		\$24,348,290
Debt Outstanding (2) .....	\$19,632,312	
Less: Exempt Debt (3).....	<u>17,824,735</u>	<u>1,807,577</u>
Legal Debt Margin .....		<u>\$22,540,713</u>

(1) 10% of \$243,482,900 which is the City's Total SEV for the fiscal year ending June 30, 2007. Includes the SEV of property granted tax abatement under Act 198. See "CITY TAXATION AND LIMITATIONS – State Equalized Valuation" and "CITY TAXATION AND LIMITATIONS – Tax Abatement" herein.

(2) Includes the City's portion of the Bonds described herein.

(3) See "CITY DEBT – Statutory and Constitutional Debt Provisions" herein.

Source: Municipal Advisory Council of Michigan and the City of Rockford

## Debt Statement

The following table reflects a breakdown of the City's direct and overlapping debt as of August 2, 2006 including the City's portion of the Bonds described herein. Direct debt which is shown as self-supporting is paid from sources other than the City's General Fund.

The City's ability to levy a tax to pay the debt service on the bonds which are designated as "Limited Tax", is subject to applicable charter, statutory and constitutional limitations. See "CITY TAXATION AND LIMITATION" herein.

<u>City Direct Debt</u>	<u>Gross</u>	<u>Self-Supporting</u>	<u>Net</u>
Share of North Kent Sewer Authority Bonds:			
Dated _____, 2006 (Limited Tax) (1).....	\$ 8,302,800	8,302,800	\$ -0-
Dated December 22, 2005 (Limited Tax) (2) ...	1,158,000	1,158,000	-0-
Dated May 2, 2002 (Limited Tax) (3) .....	675,072	675,072	-0-
Dated September 12, 2001 (Limited Tax) (4)...	1,153,427	1,153,427	-0-
Dated April 1, 2000 (Limited Tax) (5) .....	1,682,131	1,682,131	-0-
Dated June 1, 1998 (Limited Tax) (6) .....	<u>668,305</u>	<u>668,305</u>	<u>-0-</u>
Subtotal .....	<u>\$ 13,639,735</u>	<u>\$ 13,639,735</u>	<u>\$ -0-</u>
General Obligation Bonds:			
Dated April 1, 2003 (Limited Tax).....	<u>\$ 505,000</u>	<u>\$ -0-</u>	<u>\$ 505,000</u>
Subtotal .....	<u>\$ 505,000</u>	<u>\$ -0-</u>	<u>\$ 505,000</u>
Downtown Development Authority Bonds:			
Dated November 1, 1997 (Limited Tax) .....	<u>\$ 560,000</u>	<u>\$ 560,000</u>	<u>\$ -0-</u>
Subtotal .....	<u>\$ 560,000</u>	<u>\$ 560,000</u>	<u>\$ -0-</u>
Michigan Transportation Fund:			
Dated August 1, 1999 (Limited Tax).....	<u>\$ 620,000</u>	<u>\$ 620,000</u>	<u>\$ -0-</u>
Subtotal .....	<u>\$ 620,000</u>	<u>\$ 620,000</u>	<u>\$ -0-</u>
Water Revenue Bonds:			
Dated September 29, 1998 (Limited Tax) .....	\$ 1,715,000	\$ 1,715,000	\$ -0-
Dated December 1, 1997 .....	525,000	525,000	-0-
Dated May 1, 1990 .....	<u>175,000</u>	<u>175,000</u>	<u>-0-</u>
Subtotal .....	<u>\$ 2,415,000</u>	<u>\$ 2,415,000</u>	<u>\$ -0-</u>

Sewer Revenue Bonds:

Dated November 1, 2002.....	\$ 1,150,000	\$ 1,150,000	\$ -0-
Subtotal .....	<u>\$ 1,150,000</u>	<u>\$ 1,150,000</u>	<u>\$ -0-</u>

Installment Purchase Obligations:

Dated July 18, 2006.....	\$ 400,000	\$ -0-	\$ 400,000
Dated April 2006 .....	200,000	-0-	200,000
Dated November 1, 2002.....	<u>142,577</u>	<u>-0-</u>	<u>142,577</u>
Subtotal .....	<u>\$ 742,577</u>	<u>\$ -0-</u>	<u>\$ 742,577</u>

Total .....	<u>\$ 19,632,312</u>	<u>\$ 18,384,735</u>	<u>\$1,247,577</u>
-------------	----------------------	----------------------	--------------------

Per Capita Net City Direct Debt (7) .....	\$269.69
Percent of Net Direct Debt to Total SEV (8).....	0.51%

<u>Overlapping Debt (9)</u>	<u>Gross</u>	<u>City Share As Percent of Gross</u>	<u>Net</u>
Kent County .....	\$ 76,095,000	1.01%	\$ 768,560
Grand Rapids Community College.....	54,210,000	0.99	536,679
Rockford School District.....	118,540,788	14.27	<u>16,915,770</u>
Totals.....			<u>\$18,221,009</u>

Per Capita Net Overlapping Debt (7) .....	\$3,938.83
Percent of Net Overlapping Debt to Total SEV (8).....	7.48%

Per Capita Net Direct and Overlapping Debt (7) .....	\$4,208.52
Percent of Net Direct and Overlapping Debt to Total SEV (8).....	7.99%

- (1) Represents Rockford's portion of the proposed 2006 North Kent Sewer Authority Bonds.
- (2) Represents Rockford's portion of the North Kent Sewer Authority Bonds dated December 22, 2005.
- (3) Represents Rockford's portion of the North Kent Sewer Authority Bonds dated May 2, 2002.
- (4) Represents Rockford's portion of the North Kent Sewer Authority Bonds dated September 12, 2001.
- (5) Represents Rockford's portion of the North Kent Sewer Authority Bonds dated April 12, 2000.
- (6) Represents Rockford's of the North Kent Sewer Authority Bonds dated June 1, 1998.
- (7) Based on the City's 2000 census population of 4,626.
- (8) Based on \$243,482,900 which is the City's Total SEV for the fiscal year ending June 30, 2007. Includes the SEV of property granted tax abatement under Act 198. See "CITY TAXATION AND LIMITATIONS – Property Valuations" and "CITY TAXATION AND LIMITATIONS – Tax Abatement" herein.
- (9) Overlapping debt is the portion of another taxing unit's debt for which property taxpayers of the City are liable in addition to debt issued by the City.

Source: Municipal Advisory Council of Michigan and the City of Rockford